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1987

PENSION *facts*

American Council of Life Insurance
Information Department
1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2599

AUTHORIZATION TO REPRODUCE GRANTED
Library of Congress Catalogue Card Number 75-39762

FOREWORD

Pension Facts is a biennial publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

Suzanne K. Stemnock
Program Director
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MAJOR PENSION AND RETIREMENT PROGRAMS

Half of all full-time workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be over 50 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between persons eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits that generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered until they actually begin receiving benefits.

However, as in the case of life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are those established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, nonprofit religious, educational and charitable institutions, and Individual Retirement Accounts or Keogh Plans set up by individuals.

Pension plans may be self-administered, placed with banks or trust companies, or insured with life insurance companies.

At the end of 1985, plans with life insurance companies covered 40.0 million persons and provided retirement income to 4.0 million individuals.

NUMBER OF PERSONS COVERED BY MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees†	State and Local Employees	OASI‡
1940	695	3,565	1,349	745	1,552	22,900
1945	1,470	5,240	1,846	2,928	2,008	41,070
1950	2,755	7,500	1,881	1,872	2,894	61,506
1955	4,105	12,290	1,876	2,333	3,927	74,887
1960	5,475	17,540	1,654	2,703	5,160	91,496
1965	7,040	21,060	1,661	3,114	6,780	103,827
1966	7,835	21,710	1,666	3,322	7,210	107,438
1967	8,700	22,330	1,641	3,499	7,594	110,746
1968	9,155	22,910	1,625	3,565	8,012	113,804
1969	9,920	24,410	1,620	3,627	8,303	116,904
1970	10,580	25,520	1,633	3,624	8,591	120,014
1971	10,880	26,580	1,578	3,596	9,079	122,735
1972	11,545	27,400	1,575	3,739	9,563	125,549
1973	12,485	28,700	1,582	4,040	9,850	129,045
1974	13,335	29,240	1,588	4,057	10,635	132,583
1975	15,190	30,300*	1,564	4,171	11,230	135,744
1976	16,965	NA	1,572	4,210	12,290	138,633
1977	19,205	NA	1,567	4,292	13,124	141,596
1978	21,615	NA	1,580	4,380	13,400*	144,260
1979	23,460	NA	1,567	4,398	13,680*	147,178
1980	26,080	NA	1,533	4,460	13,950*	153,634
1981	27,825	NA	1,483	4,566	14,230*	157,569
1982	30,375	NA	1,404	4,610	14,504	160,611
1983	32,425	NA	1,383	4,683	14,464	161,836
1984	35,510	NA	1,362	4,791	14,788	161,986
1985	40,010	NA	1,310	4,887	15,235	162,881

Notes: It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series.

Private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans.

Data for "Other Private Plans," compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces, and provisions for veterans' pensions, are not included.

N.A.—Not Available.

*Estimated.

†Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Authority Retirement System, the Foreign Service Retirement System, and the Retirement Plan for Employees of the Federal Reserve System.

‡Includes living workers insured for retirement and/or survivors benefits, including the self-employed, plus dependents of retired workers and survivors of deceased workers who are receiving periodic benefits.

SOURCE: Compiled by the American Council of Life Insurance.

Government-administered Plans

Government-administered plans, including those for federal civilian employees, state and local government employees and railroad workers, covered 21.4 million persons at year-end 1985. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

The most comprehensive government retirement program is the federal Old-Age and Survivors Insurance (OASI) system, which is part of Social Security, a national social insurance program created in 1935. Some 171 million persons had Social Security earnings credits at the end of 1985. Over 152 million of these workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die, the full range of survivor benefits would be available, or if they were age 62, they would qualify for retirement benefits).

Actuarially-funded retirement systems for civilian employees of the United States government covered 4.9 million persons.

The Railroad Retirement System, the only retirement system administered by the federal government for a single private industry, covered 1.3 million persons at year-end 1985, including 963,000 beneficiaries.

State and local government retirement systems covered 15.2 million persons at the end of 1985.

ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000,000 Omitted)

	Private Plans		Government-Administered Plans			
Year	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	$ 5,600	NA	$2,553	$ 4,344	$ 5,154	$13,721
1960	18,850	$ 38,148	3,740	10,790	19,600	22,613
1965	27,350	73,647	3,946	16,516	33,100	19,841
1966	29,425	75,781	4,074	17,619	36,900	22,308
1967	32,000	89,417	4,236	18,799	41,500	26,250
1968	34,975	101,456	4,245	20,224	46,300	28,729
1969	37,900	102,385	4,347	21,600	51,800	34,182
1970	41,175	110,394	4,398	23,922	58,200	38,068
1971	46,400	130,121	4,300	26,532	64,800	40,434
1972	52,300	157,525	4,100	29,978	73,400	42,775
1973	56,085	153,563	3,800	32,283	82,700	44,414
1974	60,810	150,158	3,600	35,366	92,400	45,886
1975	72,210	212,636	3,100	39,248	103,700	44,342
1976	88,990	241,025	3,065	44,089	117,300	41,133
1977	101,520	260,211	2,584	50,832	130,800	35,861
1978	119,110	298,275	2,787	57,677	142,573	31,746
1979	139,180	366,481	2,611	65,914	161,649	30,291
1980	165,845	467,424	2,086	75,802	185,226	26,453
1981	190,325	477,553	1,126	86,867	209,444	24,539
1982	225,195	549,053	460	99,462	245,252	24,778†
1983	264,575	648,654	601	114,219	289,731	24,867†
1984	309,080	659,079	3,712	129,787	324,369	31,075†
1985	371,305	757,438	5,109	148,166	373,929	42,163†

Note: Some data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Hospital and Supplementary Medical Insurance is not included.

†Includes funds borrowed from the Hospital Insurance Trust Fund.

SOURCE: Compiled by the American Council of Life Insurance.

PENSION PLANS WITH LIFE INSURANCE COMPANIES

There were 40.0 million Americans covered by private pension plans funded with U.S. legal reserve life insurance companies at year-end 1985, an increase of 4.5 million over 1984. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached $371.3 billion at year-end 1985, an increase of 20.1% over year-end 1984 and five times the amount of pension reserves held 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers can choose to participate in the investment and actuarial experience of the contract.

Group Pension Plans

Most persons covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of contracts, deposit administration with participation in actuarial, investment or administrative gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the

PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES IN FORCE AT YEAR-END

Year and Types of Plan	Number of Plans	Number of Persons (in thousands)			Payments into Plans in Year[1] (in millions)	Benefits Paid in Year (in millions)	Reserves (in millions)	
		Not Yet Receiving Pensions	Receiving Pensions	Total			Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	$ 640	NA	$ 4,125	—
Deposit Administration Group Annuity[2]	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other[3]	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	$ 935	$ 80	$ 5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	$ 845	NA	7,925	—
Deposit Administration Group Annuity[2]	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other[3]	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	$ 1,425	$ 180	$ 11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	$ 695	NA	$ 11,675	—
Deposit Administration Group Annuity[2]	3,120	NA	NA	1,835	$ 415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	$ 315	NA	2,175	—
Other[3]	3,170	NA	NA	440	$ 190	NA	1,625	—
Total	32,340	4,935	540	5,475	$ 1,615	$ 390	$ 18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	$ 850	NA	$ 14,225	NA
Deposit Administration Group Annuity[2]	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other[3]	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	$ 2,395	$ 720	$ 27,350	$ 260
1970								
Deferred Group Annuity	10,280	1,435	520	1,955	$ 725	$ 445	$ 12,800	NA
Deposit Administration Group Annuity[2]	15,020	5,580	545	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	100	3,350	NA
Other[3]	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,355	1,225	10,580	$ 3,895	$ 1,330	$ 41,175	$ 4,900

1975								
Group Annuities[4]	54,090	9,105	1,440	10,545	7,260	$ 2,160	$ 55,180	$10,900
Terminal Funded Group Plans	3,250	60	85	145	340	110	1,950	60
Individual Policy Pension Trusts[5]	176,410	1,860	100	1,960	1,075	140	5,550	440
H.R. 10 (Keogh) Plans	—	440	10	450	345	10	1,300	150
Tax-Sheltered Annuities	—	915	20	935	750	35	3,150	790
Individual Retirement Accounts	—	435	*	435	315	**	330	40
Other	—	660	60	720	650	65	4,750	140
Total	—	13,475	1,715	15,190	$10,735	$ 2,520	$ 72,210	$12,520
1980								
Group Annuities[4]	91,370	17,115	2,110	19,225	$14,820	$ 4,240	$127,215	$30,230
Terminal Funded Group Plans	5,680	90	145	235	370	295	4,285	90
Individual Policy Pension Trusts[5]	204,300	2,015	135	2,150	1,480	175	7,585	650
H.R. 10 (Keogh) Plans	—	465	15	480	355	30	2,510	330
Tax-Sheltered Annuities	—	1,750	50	1,810	2,010	80	10,280	1,600
Individual Retirement Accounts	—	1,095	5	1,100	700	15	3,020	130
Other	—	960	120	1,080	1,815	125	10,950	380
Total	—	23,500	2,580	26,080	$21,550	$ 4,960	$165,845	$33,410
1984								
Group Annuities[4]	118,120	22,575	2,815	25,390	$17,275	$ 7,065	$229,490	$57,050
Terminal Funded Group Plans	7,240	130	285	415	2,210	685	9,440	60
Individual Policy Pension Trusts[5]	196,450	1,560	145	1,705	1,420	205	8,435	900
H.R. 10 (Keogh) Plans	—	445	20	465	475	55	3,250	420
Tax-Sheltered Annuities	—	2,780	80	2,860	4,410	205	23,895	3,160
Individual Retirement Accounts	—	3,130	20	3,150	3,290	50	12,550	1,230
Other	—	1,340	185	1,525	2,310	255	22,020	370
Total	—	31,960	3,550	35,510	$31,390	$ 8,520	$309,080	$63,190
1985								
Group Annuities[4]	122,310	25,700	3,000	28,700	$27,305	$ 8,310	$272,055	$72,670
Terminal Funded Group Plans	8,520	400	445	845	3,560	1,060	14,005	60
Individual Policy Pension Trusts[5]	197,940	1,585	150	1,735	1,865	250	9,605	1,040
H.R. 10 (Keogh) Plans	—	430	20	450	475	60	3,325	440
Tax-Sheltered Annuities	—	3,020	115	3,135	4,455	300	28,710	3,730
Individual Retirement Accounts	—	3,490	25	3,515	3,660	60	16,955	1,900
Other	—	1,425	205	1,630	3,230	315	26,650	280
Total	—	36,050	3,960	40,010	$44,550	$10,355	$371,305	$80,120

NA = Not Available.
*Fewer than 2,500.
**Less than $2,500,000.
[1]"Payments into Plans in Year" are incurred premiums after deducting withdrawal credits.
[2]Includes Immediate Participation Guarantee.
[3]Includes data on H.R. 10 plans, tax-sheltered annuities, profit-sharing plans and miscellaneous plans not readily available.
[4]Includes Immediate Participation Guarantee and Deposit Administration plans.
[5]Includes Group Permanent plans and profit-sharing trusts.
SOURCE: American Council of Life Insurance.

plan. Normally a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and profit-sharing plans are often used by smaller firms. Over 1.7 million persons were covered by such plans at year-end 1985. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) Plans. Available for more than 22 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees. At year-end 1985, H.R. 10 plans with life insurance companies covered 450,000 persons, including 20,000 individuals receiving benefits. Reserves for these plans were over $3.3 billion.

Individual Retirement Accounts (IRAs). The Employee Retirement Income Security Act of 1974 (ERISA) allowed individuals to set up their own Individual Retirement Accounts (IRAs) if there was no private pension plan where they worked. By year-end 1981, 1,140,000 persons had set up such plans with life insurance companies, and the reserves for such plans amounted to $3.3 billion. The Economic Recovery Act of 1981 raised contribution limits on Individual Retirement Accounts and extended IRA eligibility to persons covered by employer pension plans, as of January 1, 1982. Since then the number of IRAs with life insurance companies increased by 2.4 million, or 208.3%, and reserves increased by $13.6 billion to a total of $17.0 billion at year-end 1985. (See page 37 for recent legislative changes in IRA contribution rules.)

The Internal Revenue Service's analysis of 1984 individual income tax returns shows that over 15 million returns claimed contributions to Individual Retirement Accounts, and the total amount contributed was $35.4 billion. Almost $4.1 billion in H.R. 10 contributions were reported on 650,000 returns.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered $28.7 billion in the assets of tax-sheltered annuities in 1985. These plans covered 3.1 million persons, including 115,000 annuitants in 1985.

INDIVIDUAL INCOME TAX RETURNS WITH IRA AND/OR KEOGH PLAN CONTRIBUTIONS

(Dollar Amounts in Thousands)

	1975	1980	1982	1983	1984
Individual Retirement Arrangement:					
Number of returns	1,211,794	2,564,421	12,010,038	13,613,167	15,232,856
Amount	$1,436,443	$3,430,894	$28,273,852	$32,060,627	$35,374,424
Self-Employed Retirement (Keogh):					
Number of returns	595,892	568,936	559,011	656,038	648,958
Amount	$1,603,788	$2,007,666	$2,482,594	$2,937,980	$4,072,409

SOURCE: U.S. Internal Revenue Service.

OUTSTANDING AMOUNTS IN IRAs AND KEOGH PLANS WITH SELECTED FINANCIAL INSTITUTIONS, YEAR-END

(000,000 Omitted)

Institution	IRA Accounts		Keogh Plans		Total		Percent of Total	
	1984	1985	1984	1985	1984	1985	1984	1985
Life Insurance Companies	$12,550	$16,955	$3,250	$3,325	$ 15,800	$ 20,280	10.5%	9.5%
Mutual Funds	16,500	31,500	6,500	7,900	23,000	39,400	15.3	18.4
U.S. Treasury Retirement	25	23	129	114	154	137	0.1	0.1
Commercial Banks	NA	NA	NA	NA	43,800	59,177	29.1	27.7
Mutual Savings Banks	9,644	10,286	1,872	1,563	11,516	11,849	7.7	5.5
Savings & Loan Associations	NA	NA	NA	NA	47,500	69,000	31.6	32.3
Credit Unions	8,529	13,800	—	—	8,529	13,800	5.7	6.5
Total	NA	NA	NA	NA	$150,299	$213,643	100.0%	100.0%

NA = Not Available.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Federal Reserve System, National Council of Savings Institutions and National Association of Credit Unions.

VARIABLE ANNUITY PLANS IN THE UNITED STATES 1985

(Dollar Amounts in Thousands)

	Group Plans			Individual Plans	Total (Group and Individual)
	Equity Fund Index	Other Indices	Total Group		
IN FORCE YEAR-END 1985					
No. of Plans	38,280	610	38,890	—	—
No. of Persons	1,848,990	112,100	1,961,090	1,463,380	3,424,470
Reserves					
Variable	$ 6,600,430	$ 924,240	$ 7,524,670	$ 9,230,890	$16,755,560
Other	10,636,320	404,760	11,041,080	5,686,690	16,727,770
Total	$17,236,750	$1,329,000	$18,565,750	$14,917,580	$33,483,330
CONSIDERATIONS IN 1985					
Variable	$ 438,130	$ 119,070	$ 557,200	$ 1,874,190	$ 2,431,390
Other	954,180	2,900	957,080	1,081,460	2,038,540
Total	$ 1,392,310	$ 121,970	$ 1,514,280	$ 2,955,650	$ 4,469,930
VARIABLE ANNUITIES IN COURSE OF PAYMENT 1985					
No. of Persons Receiving Payments Year-End 1985	26,240	14,040	40,280	21,000	61,280
Annualized Income					
Variable	$ 93,970	$ 54,150	$ 148,120	$ 14,810	$ 162,930
Fixed	182,150	41,890	224,040	35,760	259,800
Total	$ 276,120	$ 96,040	$ 372,160	$ 50,570	$ 422,730

Note: The table includes variable and fixed data on plans that provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans that provide an option for a variable annuity payout at retirement are not included. For 1985, there were 820 such groups covering 109,260 persons, and 70,890 individual plans.

SOURCE: American Council of Life Insurance.

Funding Options

Pension plans can be funded in many ways. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, or variable rate of interest and benefit payments. In the latter, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts. In 1985, there were 38,280 group pension funds providing variable annuity payouts according to an equity fund index. Other indices were used in 610 group variable plans with indices relating to such bases as changes in the cost of living.

"The Language of Pensions" section, of this booklet includes definitions of various types of annuities.

DISTRIBUTION OF ASSETS HELD IN SEPARATE ACCOUNTS

U.S. Life Insurance Companies (000,000 Omitted)

Year	Bonds	Stocks		Mortgages	Real Estate	Cash	Other	Total
		Common	Preferred					
1967	$ 114	$ 1,055	$ 9	$ 14	*	$ 13	$ 2	$ 1,207
1968	233	1,915	31	20	$ 1	48	21	2,269
1969	638	2,745	48	36	1	52	99	3,619
1970	878	3,955	86	37	2	69	34	5,061
1971	763	6,416	83	87	24	88	62	7,523
1972	948	8,673	71	120	96	68	82	10,058
1973	1,581	7,900	53	171	186	64	75	10,030
1974	2,326	6,158	34	202	372	57	127	9,276
1975	2,553	9,277	46	200	563	55	279	12,973
1976	2,750	12,152	67	214	653	41	346	16,223
1977	4,569	10,946	51	268	803	43	678	17,358
1978	6,604	11,493	35	311	1,146	45	792	20,426
1979	9,187	12,868	34	410	2,097	50	998	25,644
1980	12,392	17,665	40	687	3,341	307	1,340	35,772
1981	18,244	16,909	48	1,401	5,030	359	2,103	44,094
1982	24,563	20,563	78	2,556	5,686	471	3,364	57,281
1983	27,294	24,845	273	4,372	6,437	532	4,103	67,856
1984	28,542	24,109	207	3,341	7,816	638	5,027	69,680
1985	34,149	33,916	242	4,402	8,561	614	6,217	88,101

Notes: In 1985, 177 U.S. life companies had assets in separate accounts, compared with 174 companies in 1984.

*Less than $500,000.

SOURCE: American Council of Life Insurance.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the company. Maturities generally range from five to twenty years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans interested in minimizing investment risk. At year-end 1985 about 18% of life insurance company pension funds were in such contracts.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of restrictions in state laws on the amount of assets life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are not subject to the same investment limitations as the companies' general accounts. Life insurance companies can invest up to 100% of separate account assets in equities, while the general accounts are limited to holding only a small fraction of assets in such investments. By year-end 1985, 177 U.S. life insurance companies had established separate accounts.

In 1985, $80.1 billion of pension assets were held in separate accounts, about 22% of total pension assets. Separate account assets at year-end 1985 were almost entirely pension assets.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those funded with life insurance companies represent the oldest type of industrial retirement planning in the United States. Assets amounted to $757.4 billion at the end of December 1985.

Private retirement plans in this category are generally trusteed pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trusteed plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, "pattern" plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH LIFE INSURANCE COMPANIES

(in Millions)

Calendar Year	Number of Persons			Contributions in Year*			Benefits Paid in Year**
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total	
1930	NA	NA	2.70	NA	NA	—	NA
1935	NA	NA	2.53	NA	NA	—	NA
1940	3.44	.13	3.57	NA	NA	—	NA
1945	4.99	.25	5.24	NA	NA	—	NA
1950	7.20	.30	7.50	$ 1,030	$ 130	$ 1,160	$ 290
1955	11.60	.69	12.29	2,180	280	2,460	670
1960	16.30	1.24	17.54	3,520	480	4,000	1,330
1965	19.10	1.96	21.06	5,600	670	6,270	2,800
1970	22.00	3.52	25.52	9,720	1,070	10,790	6,030
1975	24.90	5.40	30.30	19,830	1,600	21,430	12,330

Note: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication. These or equivalent data are not available after 1975.

NA = Not Available.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

DISTRIBUTION OF ASSETS OF NONINSURED PRIVATE PENSION FUNDS

(000,000 Omitted)

Calendar Year	U.S. Government Securities	Corporate and Foreign Bonds	Corporate Equities	Mortgages	Open-Market Paper	Time Deposits	Demand Deposits and Currency	Miscella-neous	Total
1952	$ 2,478	$ 4,548	$ 1,843	$ 149	—	—	$ 310	$ 514	$ 9,842
1955	2,992	7,853	6,085	321	—	—	415	676	18,342
1960	2,683	15,693	16,545	1,301	—	—	546	1,374	38,148
1965	2,994	22,703	40,754	3,385	—	—	941	2,870	73,647
1970	3,029	29,443	67,087	4,171	—	$ 698	1,106	4,860	110,394
1975	19,565	42,444	107,999	2,383	$ 9,480	9,258	4,617	16,890	212,636
1976	24,963	40,117	127,984	2,370	10,726	9,087	4,499	21,279	241,025
1977	29,950	45,355	126,011	2,497	10,938	13,740	4,944	26,776	260,211
1978	33,622	54,034	136,502	2,721	11,181	21,194	5,207	33,814	298,275
1979	40,547	67,555	166,530	3,139	16,209	25,170	4,919	42,412	366,481
1980	53,657	79,680	231,264	3,564	19,874	25,269	3,931	50,185	467,424
1981	73,012	85,054	210,013	3,913	21,770	26,740	3,308	53,743	477,553
1982	79,430	91,563	258,149	4,166	22,957	27,572	3,478	61,738	549,053
1983	92,361	103,310	311,344	4,228	27,784	32,448	4,059	73,120	648,654
1984	99,679	113,683	297,167	4,546	31,181	35,399	4,490	72,934	659,079
1985	106,490	119,443	383,008	4,786	31,187	35,322	4,460	72,742	757,438

Note: Details may not add to totals due to rounding. Data for 1975 and later have been revised.

SOURCE: Federal Reserve System.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds, and the federal government, which operates not only the Social Security system but retirement plans for civilian and military federal government employees and railroad employees.

Social Security System

Social Security, the largest social and economic program of the federal government, is financed primarily through taxes on wages and self-employment income and provides benefit payments to retired and disabled persons, their dependents and survivors, as well as covering major medical expenses for the aged and long-term disabled. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes are paid into the Old-Age and Survivors, Disability, and Hospital Insurance (OASDHI) Trust Funds at equal rates for employers and their employees. Under Public Law 98-21, the tax rate for self-employed persons increased in 1984, to the combined employer-employee rate; prior law applied a tax rate nearly one and one-half times the employee rate. Some 171 million persons had Social Security earning credits at the end of 1985. Of these, over 152 million had been in the program long enough to be fully insured for OASI.

A total of $192 billion in Social Security taxes (excluding Medicare) was paid in 1985, including $92 billion by employers, $91 billion by employees and $8 billion by self-employed persons. Combined assets of the Social Security Trust Funds for cash benefits totaled $42.2 billion (includes $10.6 billion borrowed from the HI Trust Fund under the interfund borrowing provision of Public Law 97-123) at year-end 1985.

For 1985, Social Security payments amounted to $234 billion, including Medicare payments.

The Social Security program is based on the concept of earnings-related benefits financed by payroll taxes applied equally to employers and employees and by taxes on the net earnings of the self-employed. It is designed to operate on a "pay-as-you-go" basis, but with a contingency reserve, or "trust fund," that serves as a cushion so that benefits can be paid when poor economic conditions cause expenditures to exceed income. Social Security is intended to provide only a floor of economic protection for elderly

persons without making the benefits so high that private employer-employee plans, personal savings, insurance and investments would be discouraged.

The U.S. Social Security system has undergone many functional changes since Congress passed the Social Security Act in 1935. Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine out of 10 employed persons are now covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), federal employees under any federal retirement system (although under P.L. 98-21 people newly hired by the federal government after December 31, 1983, have been covered under Social Security), certain employees of State and local governments, nonprofit groups (whose coverage is optional, however, all nonprofit employees have been covered as of January 1, 1984), irregularly employed farm and domestic workers and low income, self-employed persons.

Retirement benefits under Social Security are payable according to law upon retirement at or after age 62 (benefits are reduced for retirement prior to age 65) and after a service requirement is met. (Under P.L. 98-21, the age of eligibility for unreduced retirement benefits—the retirement age—will gradually increase to 67 after the turn of the century.)

Some social-adequacy types of payments have been provided since the early years of the program. Subsequent changes expanded the system so that it provided minimum benefits[1] and dependents' and survivors' benefits that are related to the worker's benefit. The benefit formulas have always been weighted toward lower-paid employees. In the mid-1970s, it became evident that the program was being seriously underfinanced. Short-term as well as long-term actuarial deficits were forecast. The system's financing problems were attributed to poor economic performance coupled with a flaw in the 1972 benefit formula that over-generously adjusted initial benefits for the effects of inflation. In the long run, evolving demographic changes were projected to cause financial problems in the next century.

The 1977 Social Security Amendments were designed to correct the system's short-range financing problems and some of the long-range problems by increasing payroll tax revenues and by more

[1]Legislation enacted in 1981 eliminated the minimum benefit for people first eligible for benefits in 1982 or later.

THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

(in Millions)

Year	Estimated Number of Persons (End of Year)			Contributions During Year*			
	Persons with Wage Credits**	Persons Insured for Retirement Benefits	Assets† (End of Year) (Trust Funds)	Employer	Employee	Self-Employed	Total
1940	44.8	24.9	$ 2,031	$ 319	$ 319	—	$ 638
1945	72.4	40.3	7,121	643	643	—	1,285
1950	82.7	59.8	13,721	1,334	1,334	—	2,667
1955	98.6	71.4	21,663	2,730	2,664	$ 319	5,713
1960	109.4	85.4	22,613	5,632	5,543	701	11,876
1965	121.3	95.8	19,841	8,183	7,991	1,032	17,205
1970	135.9	108.1	38,068	16,643	16,321	1,774	34,737
1975	148.3	122.9	44,342	30,746	30,478	3,036	64,259
1976	150.9	125.9	41,133	34,381	34,080	3,133	71,595
1977	154.0	128.9	35,861	37,724	37,439	3,548	78,710
1978	156.8	133.3	31,746	42,745	42,370	3,768	88,883
1979	159.2	137.0	30,291	49,546	49,084	4,404	103,034
1980	161.8	139.5	26,453	56,036	55,692	4,983	116,711
1981	164.0	142.4	24,539	67,046	66,690	5,598	139,364
1982	165.6	144.5	24,778††	69,702	69,492	6,473	145,667
1983	167.6	145.9	24,867††	72,314	72,070	5,879	150,263
1984	169.5	147.9	31,075††	85,647	81,125	7,372	174,145
1985	171.4	150.3	42,163††	91,801	91,488	8,497	191,785

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

‡Includes funds borrowed from the Hospital Insurance Trust Fund.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired & Disabled Workers and Survivors of Deceased Workers		Total**	
	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)
1940	112	$ 15	110	$ 8	222	$ 35
1945	518	126	770	122	1,288	274
1950	1,771	557	1,706	371	3,477	961
1955	4,474	3,253	3,487	1,603	7,961	4,968
1960	8,517	7,542	6,328	3,539	14,845	11,245
1965	12,089	12,230	8,778	5,864	20,867	18,311
1970	14,842	20,886	10,853	10,379	26,229	31,863
1975	19,077	44,987	12,784	21,403	32,085	66,923
1976	19,835	51,273	12,998	23,885	33,021	75,665
1977	20,658	57,642	13,260	26,467	34,077	84,576
1978	21,238	63,570	13,215	28,809	34,586	92,865
1979	21,840	71,712	13,172	32,083	35,124	104,263
1980	22,421	83,174	13,072	36,822	35,585	120,512
1981	22,972	97,993	12,958	42,559	36,006	140,995
1982	23,367	109,934	12,410	45,901	35,839	156,137
1983	23,988	118,774	12,046	47,970	36,085	167,032
1984	24,503	125,580	11,935	49,900	36,479	175,762
1985	25,089	133,306	11,938	52,627	37,058	186,195

*Benefits include monthly pensions and other payments, and lump sum payments.

**Includes special age 72 benefits.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

equitably adjusting Social Security initial benefit levels. In fact, the 1977 modification to correct the over-indexed automatic inflation adjustment in the benefit formula eliminated about half the projected long-term actuarial deficit. The 1977 law also increased the annual amount of earnings a beneficiary aged 65 or older could have without reduction of Social Security benefits, substantially eliminated the monthly earnings test, and lowered the age at which the test would no longer apply from 72 to 70 beginning in 1980. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be reduced or stopped because of remarriage.

To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

On June 9, 1980, Public Law 96-265, the Social Security Disability Amendments of 1980, was enacted. These amendments made a number of changes in the way benefits are calculated for disabled workers and their families and in the administration of the DI program. The legislation is designed to strengthen incentives for disabled beneficiaries to return to work and to improve accountability under the DI program.

Despite the changes made in the 1977 amendments, the continuing poor performance of the economy has placed the OASI Trust Fund in jeopardy. On October 9, 1980, Public Law 96-403 (the Reallocation of Social Security Tax Receipts Act) was signed into law. This act reallocated portions of the DI tax rate to the OASI Trust Fund for calendar years 1980 and 1981. (Total OASDI tax rates were not changed.) This adjustment was made to place income to the two trust funds on a relatively more even basis during this period, and to allow additional time to deliberate on resolving the impending OASI financial problems.

On October 19, 1980, Public Law 96-473 (which amended the Social Security Act) was signed into law. This amendment makes a number of modifications to the earnings test provisions of the law in order to correct certain inequities caused when the monthly earnings test was substantially eliminated by the Social Security Amendments of 1977. In addition, P.L. 96-473 provides for restrictions on Social Security benefits for certain inmates of penal institutions.

On December 5, 1980, Public Law 96-499 (the Omnibus Reconciliation Act of 1980) was signed into law. This act limits benefit retroactivity, except for disability claims, and (with certain temporary exceptions) includes as "covered wages" any payment of an employee's Social Security taxes by his or her employer.

On August 13, 1981, Public Law 97-35 (the Omnibus Budget Reconciliation Act of 1981) was signed into law. This act made several changes to the OASDI program; it included provisions to phase out post-secondary student's benefits, delay until 1983 lowering the age from 72 to 70 at which the earnings test no longer applies, limit the payment of lump-sum death benefits to certain family members, and offset Social Security DI benefits when total disability benefits paid under public plans exceed predisability earnings. Provisions in P.L. 97-35 that would have eliminated the minimum benefit for both current and future beneficiaries were subsequently amended by P.L. 97-123 (see below).

On December 29, 1981, Public Law 97-123 was signed into law "to amend the Omnibus Budget Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act." This legislation restored such benefits for current, but not future, beneficiaries (i.e., the minimum benefit was eliminated only for people who become eligible for benefits after December 1981). To lessen the cash-flow problems of the OASI program, P.L. 97-123 also authorized interfund borrowing among the OASI, DI, and HI Trust Funds, and provides for the coverage, for Social Security tax and benefit purposes, of sick pay during the first 6 months of nonwork.

On April 20, 1983, Public Law 98-21 (the Social Security Amendments of 1983) was signed into law. The major changes made by this law include increasing taxes for employers, workers, and the self-employed, making part of Social Security benefits subject to taxation for upper-income taxpayers, raising the age of eligibility for unreduced retirement benefits in the next century, basing the automatic cost-of-living adjustment on the lower of the CPI increase or the increase in average wages in circumstances where Social Security trust-fund reserves are projected to decline below specified levels, and making new federal employees, members of Congress, the President and other federal officials subject to Social Security taxes for the first time.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the federal government for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System, the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

FEDERAL CIVILIAN RETIREMENT SYSTEMS

(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Receiving Benefits									
		Retired or Disabled	Survivors, Dependents	Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	Assets and Reserves
1950											
U.S. Civil Service	1,670	154	18	1,842	$ 307	$ 370	$ 677	$ 176	$ 8	$ 184	$ 4,202
Federal Reserve System	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	*	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	*	-	9	2	2	4	**	-	**	27
Total	1,699	155	18	1,872	316	377	693	178	8	186	4,344
1960											
U.S. Civil Service	2,154	361	150	2,665	823	787	1,610	700	105	805	10,480
Federal Reserve System	20	3	*	23	9	3	12	5	**	5	178
Foreign Service	4	*	*	4	2	2	4	3	**	3	29
Tennessee Valley Authority	10	1	*	11	5	3	8	1	**	1	103
Total	2,188	365	150	2,703	839	795	1,634	709	105	814	10,790
1970											
U.S. Civil Service	2,612	662	297	3,571	2,001	1,869	3,870	2,368	429	2,797	23,294
Federal Reserve System	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	*	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	*	15	12	3	15	7	1	8	226
Total	2,654	672	298	3,624	2,041	1,880	3,921	2,406	432	2,838	23,922
1975											
U.S. Civil Service	2,730	990	382	4,102	6,707	2,534	9,241	6,052	908	6,960	38,351
Federal Reserve System	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2,782	1,004	385	4,171	6,786	2,553	9,339	6,141	915	7,056	39,248

1980											
U.S. Civil Service	2,700	1,248	427	4,375	15,562	3,686	19,248	12,639	1,912	14,551	73,687
Federal Reserve System	26	7	1	34	61	2	63	36	4	40	851
Foreign Service	10	6	1	17	27	21	48	141	9	150	660
Tennessee Valley Authority	28	5	1	34	60	19	79	28	3	31	604
Total	2,764	1,266	430	4,460	15,710	3,728	19,438	12,844	1,928	14,772	75,802
1982											
U.S. Civil Service	2,660	1,381	483	4,524	19,443	4,171	23,614	16,406	2,533	18,939	96,636
Federal Reserve System	25	7	1	33	50	3	53	40	5	45	988
Foreign Service	12	7	1	20	31	21	52	172	12	184	968
Tennessee Valley Authority	26	6	1	33	72	22	94	39	4	43	870
Total	2,723	1,401	486	4,610	19,596	4,217	23,813	16,657	2,554	19,211	99,462
1983											
U.S. Civil Service	2,690	1,412	493	4,595	20,614	4,399	25,013	17,602	2,783	20,385	110,458
Federal Reserve System	25	8	1	34	52	3	55	43	5	48	1,122
Foreign Service	14	7	1	22	40	39	79	198	14	212	1,599
Tennessee Valley Authority	26	6	1	33	73	21	94	46	5	51	1,040
Total	2,755	1,433	496	4,684	20,779	4,462	25,241	17,889	2,807	20,696	114,219
1984											
U.S. Civil Service	2,750	1,447	505	4,702	20,848	4,608	25,456	18,403	2,943	21,346	125,348
Federal Reserve System	25	8	1	34	36	3	39	46	5	51	1,193
Foreign Service†	14	8	1	23	41	38	79	204	17	221	2,036
Tennessee Valley Authority	25	6	1	32	75	21	96	52	7	59	1,210
Total	2,814	1,469	508	4,791	21,000	4,670	25,670	18,705	2,972	21,677	129,787
1985											
U.S. Civil Service	2,800	1,480	518	4,798	22,301	4,679	26,980	19,414	3,158	22,572	142,693
Federal Reserve System	25	8	1	34	34	3	37	49	5	54	1,486
Foreign Service	15	7	1	23	41	40	81	187	17	204	2,547
Tennessee Valley Authority	24	7	1	32	76	23	99	60	6	66	1,440
Total	2,864	1,502	521	4,887	22,452	4,745	27,197	19,710	3,186	22,896	148,166

*Less than 500.

**Less than $500,000.

†Data are revised.

SOURCES: U.S. Office of Personnel Management; Federal Reserve System; U.S. Department of State; and George B. Buck Consulting Actuaries.

The largest is the U.S. Civil Service Retirement System which, with 2.8 million active workers on its rolls at year-end 1985, provided benefit payments in 1985 of $22.6 billion to 2.0 million retired workers and their survivors and dependents, and had accumulated assets of $142.7 billion. Employer and employee contributions totaled $27.0 billion in 1985. The share of the employer (the federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets.

The federal civilian retirement system operates independently of the Social Security system. As a consequence, the pension benefits for federal plans, which are financed in part by employee contributions and provide for cost-of-living adjustments, are set higher than if they were integrated with Social Security. However, the Civil Service system's retirement program currently includes provisions that encourage federal employees to retire at a much earlier age than private sector employees. As a result, many federal Civil Service retirees are also able to qualify for Social Security benefits. In 1979, 63% of all Civil Service annuitants age 62 and over were also entitled to Social Security benefits.

Since 1984, newly hired federal employees are covered under Social Security. Coverage was also extended to the incumbent President and Vice President, members of Congress, sitting federal judges, most executive-level political appointees and employees in the legislative branch who were not participating in the Civil Service Retirement system on December 31, 1983. This new Social Security coverage is in addition to a modified Civil Service defined benefit plan and an optional, tax deferred, thrift plan.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the federal government that covers a single industry. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of

railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1985, the Railroad Retirement system covered 347,000 workers and in 1985 paid retirement benefits of $3.7 billion to 425,000 age, service and disability annuitants. In addition, over $2.5 billion was paid to some 538,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters and other employees of state, county and city governments. In 1985, such government pension plans paid $22.0 billion in benefits to an estimated 3.4 million retired workers and their survivors and dependents. Assets held by these systems totaled $373.9 billion at year-end 1985. Employers and employees contributed $36.9 billion to the plans, with employers paying 74.3%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About three-fourths of all state and local employees have Social Security; the majority are also covered by their own pension plans. The Social Security Amendments of 1983 included a ban on termination of Social Security coverage for employees of state and local governments.

RAILROAD RETIREMENT SYSTEM

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year†			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1930	*	*	—	1,400	$ 30	—	$ 30	NA	—	NA	—
1940	1,205	141	3	1,349	65	$ 65	130	$ 114	—	$ 114	$ 136
1950	1,494	251	136	1,881	273	273	546	254	NA	NA	2,553
1960	862	384	408	1,654	298	298	596	626	$ 336	962	3,740
1970	650	444	539	1,633	493	467	960	1,108	663	1,771	4,398
1971	595	440	543	1,578	475	450	925	1,200	802	2,002	4,300
1972	586	447	542	1,575	525	475	1,000	1,350	825	2,175	4,100
1973	589	443	550	1,582	540	500	1,040	1,550	1,015	2,565	3,800
1974	585	457	546**	1,588	1,201	421	1,622	1,710	1,098	2,808	3,600
1975	532	469	563**	1,564	1,209	423	1,632	1,970	1,313	3,283	3,100
1976	541	466	565**	1,572	1,325	465	1,790	2,102	1,469	3,571	3,065
1977	534	464	569**	1,567	1,457	507	1,964	2,245	1,579	3,824	2,584
1978	553	459	568**	1,580	1,520	546	2,066	2,353	1,668	4,021	2,787
1979	545	455	567**	1,567	1,732	682	2,414	2,552	1,810	4,362	2,611
1980	517	451	564**	1,533	1,845	717	2,562	2,839	2,027	4,866	2,086
1981	477	447	559**	1,483	1,971	838	2,809	3,128	2,243	5,371	1,126
1982	404	443	557**	1,404	2,193	1,015	3,208	3,421	2,422	5,843	460
1983	393	438	552**	1,383	2,169	1,004	3,173	3,565	2,489	6,054	601
1984	386	431	545**	1,362	2,548	1,192	3,740	3,623	2,509	6,132	3,712
1985	347	425	538**	1,310	2,586	1,278	3,864	3,715	2,555	6,270	5,109

NOTE: Details may not add to totals due to rounding.

NA = Not Available.

*Not available separately.

**Figure includes employee annuitants also receiving benefits as dependents of survivors.

†Excludes financial interchange transfers from Social Security trust funds.

SOURCE: U.S. Railroad Retirement Board.

STATE AND LOCAL GOVERNMENT RETIREMENT PLANS

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1950	2,600	254	40	2,894	$ 510	$ 395	$ 905	$ 274	$ 26	$ 300	$ 5,154
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015	19,600
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120	58,200
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620	64,800
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335	73,400
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075	82,700
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835	92,400
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725	103,700
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700	117,300
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455	130,800
1978	11,080*	2,120*	200*	13,400*	13,621	5,688	19,309	8,945*	605*	9,550	142,573
1979	11,210*	2,260*	210*	13,680*	15,336	6,069	21,405	10,035*	735*	10,770	161,649
1980	11,340*	2,390*	220*	13,950*	17,532	6,466	23,998	11,307*	900*	12,207	185,226
1981	11,480*	2,520*	230*	14,230*	20,020	7,289	27,309	12,972*	858*	13,830	209,444
1982	11,607	2,654	244	14,504	21,808	8,123	29,931	14,849	831	15,680	245,252
1983	11,370	2,873	221	14,464	22,956	8,699	31,655	16,750	734	17,484	289,731
1984	11,496	3,051	241	14,788	24,977	8,845	33,822	18,942	872	19,814	324,369
1985	11,842	3,140	253	15,235	27,386	9,478	36,864	21,025	968	21,993	373,929

*Estimated.

NOTE: Beneficiaries are as of June 30. Financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter. Details may not add to totals due to rounding.

SOURCE: Bureau of the Census, U.S. Department of Commerce.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries and pension fund assets were about $10 million.

In 1930, some 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled $90 million, and reserves amounted to $800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the federally-administered Railroad Retirement System was established.) Contributions to all private pension plans (other than those for railroad workers) were $200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the federal Social Security program in 1935 made retirement planning more widely applicable on a national scale. By 1940, more than 4 million active workers participated in private pension plans, with 160,000 retired workers receiving annual benefit payments of

$140 million. Reserves totaled $2.4 billion. Contributions to all private pension plans exceeded $300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the deduction of employer pension contributions from the taxable income of employers were significant incentives for the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus was the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants from 1940 to 1945. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950 benefit payments totaled $370 million. Annual contributions to private plans exceeded $2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was largely attributable to the fact that many plans adopted during World War II, and most pension plans agreed to by collective bargaining, were noncontributory.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence.

The greatest growth in private pension plans in terms of coverage,

contributions, beneficiaries, benefit payments and assets occurred in the 1950s. Private plans covered 23.0 million persons and annual contributions reached $5.6 billion by year-end 1960. Reserves increased to $57 billion, and benefit payments totaled $1.7 billion.

The growth in contributions and benefits under private retirement plans slowed during the 1960s, and much of the growth that occurred was due to inflation. At year-end 1970, 36.1 million persons were covered by private pension plans, and contributions were $15 billion. Benefit payments amounted to $7.4 billion, and reserves reached $152 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, some 4.0 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 3.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.4 million active workers were covered by private pension plans, and contributions were about $32.2 billion. From 1970 to 1975, benefit payments more than doubled to $14.9 billion, and reserves increased by 88% to $285 billion.

Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have increased sevenfold since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

1857 New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.

1875 First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.

1880 First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

1892 Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.

1893 First pension plan for public school teachers was established in Chicago.

1901 Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.

1903 Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.

1905 First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.

1905 Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.

1907 The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.

1920 The Federal Civil Service Retirement and Disability Fund was created by Congress.

1921 First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.

1921 Revenue Act of 1921 made employer contributions to profit-sharing trusts tax-exempt. Provisions were extended to pension trusts in 1926.

1935 Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.

1935 Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1972, to provide supplemental security income benefits to persons 65 or older, blind, disabled, with little or no income; in 1977 to

increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

1949 The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.

1949 The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.

1952 College Retirement Equities Fund (CREF) was established as the first variable annuity fund.

1958 Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.

1958 A provision for U.S. Presidents' retirement benefits and widows of U.S. Presidents' benefits was established as part of the U.S. Code.

1959 Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.

1962 H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act). Subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.

Early 1960s Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.

1963-1964 The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.

1965 The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

1974 The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.

1978 The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for federal employees.

1981 The Economic Recovery Tax Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans.

1982 The Tax Equity and Fiscal Responsibility Act of 1982 reduced the benefit and contribution limits for qualified plans, raised the age at which defined benefit plan participants may receive the maximum benefit without actuarial reductions, and decreased the aggregate dollar limit for individuals participating in defined benefit and defined contribution plans.

1983 The Social Security Amendments of 1983 increased Social Security taxes and made a portion of Social Security benefits taxable to high income retirees, put a limit on cost-of-living adjustments under some circumstances, made new federal employees, members of Congress, the President and other federal officials subject to Social Security taxes, and gradually increased the retirement age to 67 by the year 2027.

1983 The U.S. Supreme Court decided that employee retirement benefits based on contributions made after August 1, 1983, must be calculated without regard to the sex of the employee.

1984 The Retirement Equity Act of 1984 lowered the minimum ages for vesting and participation, liberalized break-in-service rules for maternity/paternity leave, required the written consent of the spouse before joint and survivor coverage may be waived under pension plans, and required the payment of a survivor annuity in the case of a vested participant who dies before the annuity starting date.

1986 The Tax Reform Act of 1986 eliminated the tax deductibility of IRA contributions for highly paid persons who are covered by pension plans, and reduced to $7,000 the maximum contribution to salary reduction (401K) plans.

PENSION TOPICS OF CURRENT INTEREST

The Tax Reform Act of 1986

The Tax Reform Act of 1986 represents the most sweeping revision of the tax code in the last 40 years. It lowers rates, removes the working poor from the tax rolls, and provides for a strong minimum tax. The revenue for these changes comes from shifting $120 billion in taxes to corporations and closing down some individual preferences—including many tax shelters.

Although the Tax Reform Act contains tax changes impacting life and health insurance companies, their products, and their policyholders, the Act does retain the current income tax exclusion for group health and life insurance and continues the current tax treatment of the inside build-up on individually owned life insurance. The following provisions affect pension plans and individual retirement accounts.

Section 401(k) Plans. Elective salary deferrals are limited to $7,000 per year, with a more limiting ADP (nondiscrimination) test and a new definition of the "top paid" group applying to employee elective deferrals and, for the first time, to employer matching and employee after tax contributions.

Employee withdrawals are limited to amounts attributable to employee elective deferrals, and such withdrawals are basically limited to hardship circumstances. In addition, a 10% penalty tax is imposed on all such withdrawals (other than for medical expenses deductible under IRC §213). Tax exempt and public employers will not be able to establish Section 401(k) plans, although plans already in existence will be allowed to continue.

Section 415 Limits. The Tax Reform Act retains the current law $90,000 defined benefit limit, which is indexed to the cost of living beginning in 1988. This limit, however, is actuarially reduced for those retiring before the normal social security retirement age—with no floor set on the amount of reduction. (Under current law, the reduction begins at 62 years of age, with a floor of $75,000.) The Tax Reform Act also retains the current law $30,000 defined contribution limit; this limit is to be indexed when the defined benefit limit reaches $120,000. In addition, a 15% additional tax is imposed on aggregate annual distributions from all tax-favored retirement arrangements in excess of the greater of $112,500 or 1.25 times the indexed dollar limit for defined benefit plans. For purposes of the "excess distribution" provision, a pro-rata grandfather rule applies to benefits accrued before August 1, 1986.

Uniform Distribution Rules. With limited exceptions, a 10% excise tax applies to pre-age 59 distributions, and 10 year averaging is replaced with 5 year averaging for lump sum distributions. These new rules apply to all qualified plans, including Section 401(k) and 403(b) arrangements.

Coverage and Nondiscrimination Rules. Beginning in plan years after 1988, qualified plans must meet one of three, more objective nondiscrimination tests. The definition of the "top paid" group applicable to Section 401(k) plans will be applied to all qualified plans.

Section 403(b) Annuities. The new coverage and nondiscrimination rules noted above will generally apply to the nonelective and matching contributions under Section 403(b) annuities. In addition, a cap of $9,500 (or the 401(k) cap after indexing, if greater) is applied to elective contributions.

Integration and Vesting. The social security integration rules are significantly revised. These rules will provide an integrated benefit floor of no less than half the nonintegrated benefit. The current minimum 10 year cliff/5 to 15 year graded vesting schedules are changed to 5 year cliff and 3 to 7 year graded schedules.

IRA's. For taxable years beginning after 1986, individuals who are not active participants in employer-sponsored retirement plans may continue to make deductible contributions to an IRA of up to $2,000. Individuals who are active participants may also continue to make deductible contributions of up to $2,000 if adjusted gross income does not exceed $25,000 (single return) or $40,000 (joint return). The Tax Reform Act phases out the deduction for IRA contributions by active participants with adjusted gross income between $25,000 and $35,000 (single return) or $40,000 and $50,000 (joint return). To the extent the IRA deduction is reduced or eliminated by the phase-out rule, however, a taxpayer may elect to make non-deductible IRA contributions. Total combined contributions to both deductible and non-deductible IRAs may not exceed the $2,000 ($2,250 spousal) limit.

U.S. Bureau of the Census Retirement Income Survey

According to a recent Bureau of the Census publication, 34.2 million persons aged 25 or older reported receiving public or private pensions during the third quarter of 1984. Receipt of a social security benefit was reported by 30.2 million, or 89 percent of these persons. Moreover, social security was received by 97 percent of the pension recipients over age 65.

The data, which are derived from the Survey of Income and

NUMBER OF PERSONS RECEIVING PENSIONS AND PERCENT RECEIVING SOCIAL SECURITY, BY AGE AND TYPE OF PENSION

(Monthly average, third quarter 1984)

Type of Pension	Pension recipients		
	Number (in thousands)	Percent receiving social security[1]	
		All ages	Aged 65 or older
Total	34,165	88.5	97.1
Social security	30,233	—	—
Social security[1] only	20,018	—	—
Private	7,900	82.3	95.5
State or local	2,854	70.9	87.5
Federal	1,765	51.0	69.3
U.S. military	1,304	19.6	69.5
Federal railroad retirement	781	(2)	(2)

[1]The universe for the combination of social security with other types of pension income is restricted to persons receiving a pension from only one source in addition to social security.

[2]Data not available.

Program Participation, represent the Nation's nonfarm households. Only pension income recipients aged 25 or older were included, but the estimates do include parents or guardians receiving pension income on behalf of dependent children. The survey population included almost 138 million persons aged 25 or older. About 1 in 4 of these persons reported pension income. Social Security was reported as received by slightly more than 1 in 5 of the persons aged 25 or older.

Six major sources of pensions providing income to retired and disabled workers, their dependents, and the survivors of deceased workers were identified and examined. These sources are social security benefits, company or union pensions (private pensions), Federal Government employee pensions, U.S. military pensions, State and local government employee pensions, and Federal railroad retirement annuities.

The Census report presents information about the number of persons receiving pension income, the extent to which they receive both social security and other pensions, their age distribution, the average monthly amount of income received, and their labor force participation.

About 55 percent of the persons receiving pensions were women. Of the almost 19 million women receiving a pension, 70 percent had only social security benefits.

NUMBER OF PERSONS RECEIVING PENSIONS AND MEAN AMOUNT OF PENSION INCOME, BY TYPE OF PENSION AND SEX OF RECIPIENT

(Monthly average, third quarter 1984)

Type of Pension	Number (in thousands)			Mean pension income		
	Total	Men	Women	Total	Men	Women
Total	34,165	15,170	18,995	$ 587	$ 776	$437
Social security	30,233	12,401	17,832	407	484	353
Social security only	20,018	6,570	13,447	372	456	331
Private	7,900	5,007	2,893	361	442	221
State or local	2,854	1,240	1,614	532	678	419
Federal	1,765	1,024	740	919	1,147	605
U.S. military	1,304	1,229	75	1,002	1,012	(1)
Federal railroad retirement	781	360	422	602	813	423

[1]Base less than 200,000.

The mean amount of monthly pension income during the third quarter of 1984 was $590 overall, $780 for men, and $440 for women. The survey found that the mean amount of pension income for women was consistently lower than that for men.

The mean amount of pension income for persons who got social security benefits and no other pension was $370 for all persons, $460 for men, and $330 for women. The mean amount for persons with social security and a private pension was about twice that for persons receiving only social security. Four out of five persons with a private pension also reported receipt of social security. More than 95 percent of private pension recipients aged 65 or older also received social security benefits.

The Census report shows that about 8 percent of the persons receiving a pension were under age 55. However, almost half the 1.3 million persons receiving a U.S. military pension were under that age. For career military personnel, retirement is possible after 20 years of service, regardless of age. Among those recipients of a U.S. military pension who were under age 55, more than 4 out of 5 were in the labor force.

The data show that 2.9 million persons received State and local government employee pensions and that slightly more than 55 percent of the recipients were women. Federal Government employee pensions were received by 1.8 million persons. The mean amount of $530 for State and local pensions was considerably below the mean amount of $920 for Federal pensions or the mean amount of $1,000 for U.S. military pensions. About 70 percent of the persons receiving State and local government employee pensions also received social security benefits. Only half the Federal

MEAN AMOUNT OF PENSION INCOME FOR RECIPIENTS OF SOCIAL SECURITY, BY TYPE OF PENSION AND SEX OF RECIPIENT

(Monthly average, third quarter 1984)

Type of Pension	Total	Men	Women
Social security only	$ 372	$ 456	$331
Social security[1] and—			
Private pension	826	924	658
State or local pension	928	1,066	833
Federal pension	1,056	1,256	832
U.S. military pension	1,483	1,533	(2)

[1]The universe for the combination of social security with other types of pension income is restricted to persons receiving a pension from only one source in addition to social security.

[2]Base less than 200,000.

Government employee pension recipients were concurrent recipients of social security.

The data clearly document the importance of social security in terms of the number of persons receiving benefits. Although many persons reported receiving more than one pension, two-thirds of the social security beneficiaries had no other source of pension income. For persons receiving only social security, mean pension income was lower than for persons receiving any other type of pension, except a private pension, where the amounts were about the same. However, virtually all persons aged 65 or older who received a private pension were also receiving a social security benefit. Mean household income for units with only social security was lower than the mean household income of other recipients of pension income.

Other 1986 Legislation Affecting Employee Benefits

During the final days of the 99th Congress, legislation was approved that will:

(1) Remove the age 70 limitation from the Age Discrimination in Employment Act (ADEA);

(2) Require pension benefit accruals beyond normal retirement age;

(3) Expand the health continuation provisions of COBRA; and

(4) Guarantee the benefits of retirees from companies filing for bankruptcy.

Mandatory Retirement. On October 31, 1986, President Reagan signed into law H.R. 4154, the Age Discrimination in Employment Amendments Bill of 1986 (Public Law 99-592). The legislation, which amends the Age Discrimination In Employment Act of 1967 (ADEA),

(1) removes the mandatory retirement age of 70 applicable to most private employment and (2) requires continuation of group health coverage for these older workers. The existing exception in ADEA permitting forced retirement of persons in high policymaking or bona fide executive positions was expanded to include state and local public safety officers, as well as tenured college and university faculty. These added exceptions will terminate in 7 years, during which time the Department of Labor and EEOC will study the need for their retention. The law will generally take effect on January 1, 1987, with a delayed date for collectively bargained plans.

Pension Benefit Accruals. On October 21, 1986, President Reagan signed into law H.R. 5300, the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509). The legislation contains several sections affecting employee benefit plans. Of particular importance is the provision requiring the accrual of pension benefits for service beyond normal retirement age. For plans that actuarially adjust accrued benefits in such cases, however, the employer is permitted to offset the adjustment against the required accrual. In most instances, the pension amendments apply to plan years beginning on or after January 1, 1988, with a special rule for collectively bargained plans.

Continuation of Health Benefits. Under P.L. 99-509 referred to above, there is also a provision extending COBRA health continuation rights to retirees from firms that subsequently enter Chapter 11 bankruptcy and discontinue retiree health care coverage. The legislation expands the definition of a "qualifying event" to include a proceeding under Chapter 11. With respect to such an event, the legislation further amends the definition of a "qualified beneficiary" to include a retiree and his/her dependents. These amendments are effective as if they had been originally included in COBRA (i.e. for plans covering 20 or more employees and for plan years beginning after June 30, 1986).

P.L. 99-509 also contains provisions under which larger employers will become the primary health care payors for disabled employees who are entitled to Medicare.

Amendment to Bankruptcy Code. On October 18, 1986, President Reagan signed into law the Fiscal 1987 Continuing Appropriations Act (Public Law 99-500). This law includes a provision that guarantees for seven months the benefits of retirees of companies that have filed for reorganization under Chapter 11 of the Bankruptcy Code. The urgency associated with this change was the result of the LTV Corporation announcement earlier this year that they were seeking protection under Chapter 11 and discontinuing the health care coverage of their retirees.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of $67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semiannually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other consecutive 12-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed until some future date.

Defined Benefit Plan—A pension plan stating either (1) the benefits to be received by employees after retirement or (2) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—Retirement of a participant prior to the normal retirement date, usually with a reduced amount of annuity. Early retirement is generally allowed at any time during a period of 5 to 10 years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age, or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets, renders investment advice for a fee, or has authority or responsibility to do so, or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, nonvested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit-sharing plan, such amounts may be allocated to the accounts of remaining participants.

401(k) Plan—A salary reduction plan that allows employees to contribute a portion of their salaries on a tax-deferred basis.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Individual Retirement Account—An account to which an individual can make annual contributions of 100% of earnings up to $2,000 ($2,250 for a one-income married couple). These contributions are tax deductible for most workers.

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment of the plan, or at the date of the latest liberalization. The maximum annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans that integrate must ensure that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other. (See *Contingent Annuity Option.*)

Keogh (HR 10) Account—An account to which a self-employed person can make annual tax deductible contributions of the lesser of 25% of income or $30,000.

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of

that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less. This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons controlling the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the accumulated funds. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company which is separate and apart from its general assets and is generally used for investment of pension assets in equities.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account.

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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